

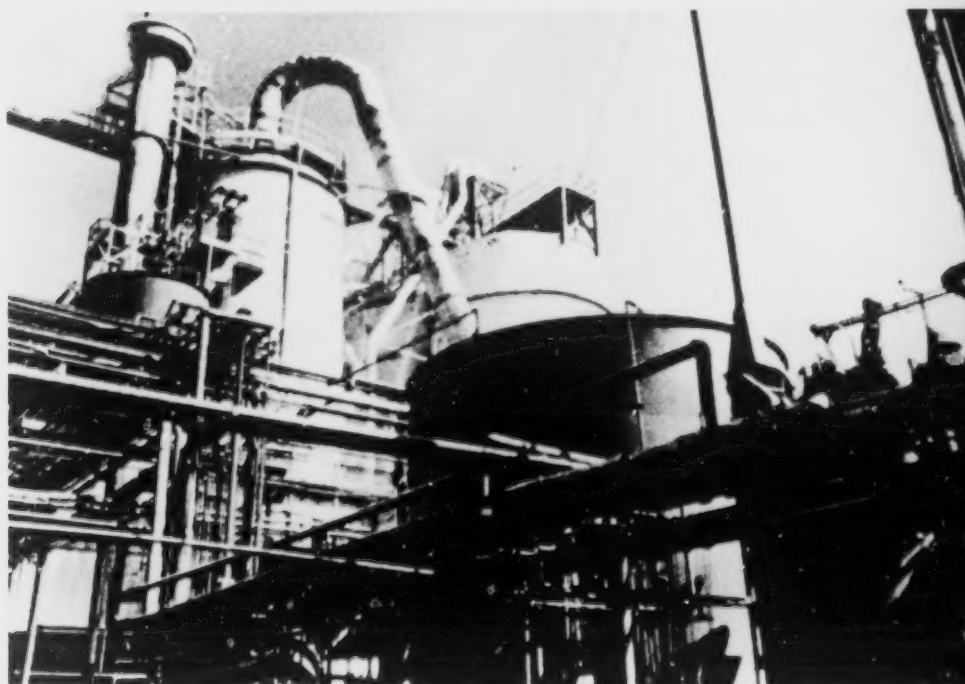


The Conference Board

Volume 3, Number 6

June 1992

# Economic Times



## INSIDE:

■ **Volcker on Regional  
Trading Areas**

*(pages 6-7)*

■ **Colloquium Tackles  
Urban Policy**

*(page 3)*

■ **The Amazing Tale  
of Three Latinos**

*(pages 4-5)*

■ **First, Set Prices on  
The Infrastructure**

*(page 7)*

## Editor's Note

Recent travels provided me the good fortune to meet with some very able Latin American economists, from whom I was able to procure very interesting analyses of the dramatic changes taking place in Mexico, Argentina and Brazil, which are brought to you in very brief form on pages 4 and 5.

This month we also have some thoughtful comments from Paul Volcker on regional trading areas, and by Ned Gramlich on how to deal with our crumbling infrastructure. Then, in responding to another exceptionally complex question, our faithful Colloquium panel has again managed to compact an inordinate amount of information and analysis into some very short answers. And as always, our Stat File and Crystal Ball focus on the near term U.S. outlook.

Our cover illustration this month comes from DESC Sociedad de Fomento Industrial, Mexico. And, finally, if you're disappointed in the way most forecasts turn out, check this month's maxim, below.

*Ed Fiedler*

### Maxim of the Month:

**The trouble with our times  
is that the future is not  
what it used to be.**

Paul Valery

# The Grand Conspiracy

**N**o one has been able either to articulate or explain the deep dismay most Americans feel about many of our economic and political systems. They just don't seem to work right anymore. Probably the most widely believed explanation for our troubles is that there exist out there several selfish, corrupt, all-powerful groups who are depriving all us regular, law-abiding, trying-to-do-our-best people of what we rightfully have coming to us. They are paying us too little, taxing us too heavily, blocking our opportunities for better jobs, and keeping prices too high.

To some it's mostly the President's fault, or else it's Congress, or the bureaucrats, or maybe just "Washington." To others the villain is the Fortune 500 or "Wall Street." Still others blame the unions, the media, the lawyers, ... and so on. The list seems endless.

This idea seems plausible sometimes, because there *are* large and powerful institutions out there. Some of them are clumsy. Their leaders, being human, make mistakes that have unhappy consequences for others. Sometimes these groups exercise their power arbitrarily. On occasion they are irresponsible, even venal.

But while such misuses of power happen occasionally, they are *not* standard practice. They *do not* represent, as the Naders and Galbraiths and Greiders would have us believe, the normal course of events. Leaders of large institutions are no more sinful (or saintly) than the general citizenry and, in fact, they probably behave a bit better than the average citizen, simply because wrongdoing by institutions is more easily found out.

I should digress here to note that these institutions do not need me to vouch for them; they can take care of themselves quite nicely. Furthermore, I emphatically do not want to be thought of as a "fearless defender of the upperdog." But the evidence is clear, I feel, that their mistakes and misdeeds do not add up to a general, systematic abuse of power by the business community, or academia, or any of the other large institutions in American life.

Yes, some of them try to mislead the public regularly, although in their minds what they are doing is in the public interest. But by and large the ad agencies, the public relations firms, the TV news organizations, and the others do not succeed in pulling the wool over the eyes of their audiences. Yes, they fool some of the people some of the time, but rarely in large numbers and then not for long. And if you are among those taken in by the puffery of advertising, or the flimflam of politicians, or the perverted interpretations of Oliver Stone's "JFK," or the outright fraud of professional wrestling—well, then, you are just not paying close attention to the obvious misrepresentations, and the fault is as much yours as it is the swindlers who deliver the deceptive messages. Nevertheless, these hucksters are the exception rather than the rule in our society.

As a general rule, then, the large institutions in American life are not fleecing the public. They simply do not have the power to do so. The source of our widespread economic and political distress remains a mystery, but it is not the product of a grand conspiracy.

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# Colloquium: Urban Policy

## BACKGROUND:

*"Urban policy"—the idea that large cities and especially the "inner cities" should be given special treatment by the Federal government in the form of public housing, enterprise zones, transfer payments to city governments, and so forth—is again being widely discussed.*

## Members:

*Members of The Conference Board Economics Colloquium are:* Stephen H. Axilrod, Vice Chairman, Nikko Securities International; Andrew F. Brimmer, President, Brimmer & Company; Don R. Conlan, President, Capital Strategy Research; Robert G. Dederick, Executive Vice President and Chief Economist, Northern Trust Company; John T. Dunlop, Lamont University Professor Emeritus, Harvard University; Gail D. Fosler, Vice President and Chief Economist, The Conference Board; Lyle E. Gramley, Senior Staff Vice President & Chief Economist, Mortgage Bankers Association; Isabel V. Sawhill, Senior Fellow, The Urban Institute; James Tobin, Sterling Professor Emeritus, Yale University; Laura D'Andrea Tyson, Professor of Economics, University of California, Berkeley; Charles E. Walker, Chairman, Charles E. Walker Associates; Murray Weidenbaum, Director, Center for the Study of American Business; Albert M. Wojnilower, Senior Advisor, First Boston Corporation.

## QUESTION:

*Is it a good idea to focus certain policies on the large cities exclusively? If so, what programs do you advocate?*



**James Tobin**  
Yale University

Long before LA a group of 100 economists proposed \$50b. annually for states and localities for public investment and education. The mayors now request \$35b. Finance this by federal borrowing in 1992-1993, while we need demand stimulus, but by taxes or defense cuts thereafter. Much would go to inner cities. Stress integrated development plans engaging community leadership. Fully fund Moynihan's 1988 Family Security Act. Combine workfare with job guarantees. And please, President Bush, for once show guts and statesmanship: Sponsor federal gun control!



**Gail Fosler**  
The Conference Board

Yes. National policies need to recognize the growing economic and social differences among states and regions as well as between urban and rural areas. Government efforts should encourage locally based development initiatives that build on local civic responsibility and are based on citizen and business commitment. The large income differences that are based solely on education also suggest the need for intensified education efforts and funding support.



**Albert M. Wojnilower**  
First Boston Asset Management

Regardless what is done, those who can will persist in fleeing the inner city. Those left behind suffer and cause ever more serious problems. Remedial measures are urgent for everyone's sake. Through "enterprise zones" and otherwise, job openings (and job transportation) should be subsidized heavily. Wages should be supplemented by vouchers redeemable only for child-rearing purposes. Successful programs will enable more to escape. Those remaining will be fewer, but their problems and rage will intensify.

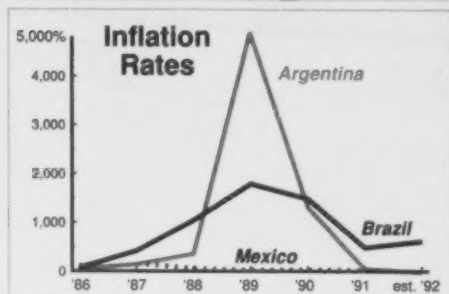


**Robert G. Dederick**  
The Northern Trust Company

Do we need an urban policy? No. Do we need an anti-poverty policy? Yes. The poverty—economic and cultural, urban and rural—of the "underclass" is a national disgrace in this richest nation. How to eradicate it? First, see to it that the able-bodied have the opportunity, skills, and incentives (monetary and other) to secure jobs, jobs, jobs. Second, establish a minimum income tax to benefit those individuals unable to join the decently-paid mainstream. And, if (heaven forbid) all this costs some money, so be it. That's what taxes are for.

# Mexico and Argentina Gain, Brazil Lags

**A**fter decades of inept and corrupt policymaking, many Latin American countries have turned their economies around decisively. Through monetary discipline, improved tax collections, privatization of government enterprises, opening the economy to imports, and deregulation, both Mexico and Argentina have made extraordinary progress. Inflation is the key (chart). In most respects Brazil has been the odd man out. Except for some gradual steps toward privatization, their market-oriented policy initiatives have either been poorly designed or not pursued with sufficient determination. As a result, inflation in Brazil is estimated at more than 600 percent in 1992, versus 19 percent in Argentina and 13 percent in Mexico.



## Confidence Marks Mexican Outlook

by Jonathan E. Heath



**T**he economic statistics show steady gains for the Mexican economy, and are the reason for the sharp improvement in the perception of investment risk. As a result, portfolio investment in Mexico has become more and more attractive, causing a large stream of capital flows into the country. Inflation has dropped from 30 percent annually at year-end 1991 to 17 percent this April. Interest rates have come down from 47 percent in March 1990 to 13 percent at present. And GDP growth has averaged 3.8 percent during the past three years after a long period of near zero growth during the 'eighties.

Strong private sector confidence in Mexico's economic outlook has made investment the main engine of growth throughout the past three years. Although the expansion slowed over the past two quarters, real GDP growth is expected to rise in the second half of the year. Reinforced expectations surrounding the eventual signing of the North American Free Trade Agreement (NAFTA) should further boost private sector investment. However, the expected boost in nontraditional exports as a result of NAFTA should not be felt until well into 1993 and then only gradually.

Although inflation has been coming down systematically during the past 18 months, the current 17 percent is still way above international rates. In Mexico's case this has become crucial, given the very stable foreign exchange market and a tendency toward a nominal appreciation of the peso exchange rate as a result of strong capital flows. The government has set a difficult-to-achieve target rate of 9.7 percent inflation for year-end. Capital inflows have caused an increase in liquidity and aggregate demand, complicating the fight against inflation. Most current forecasts of inflation for this year are between 12 and 13 percent.

Jonathan E. Heath is CEO and Chief Economist of MACRO Asesoría Económica S.C., Mexico City.

|         | GDP Growth | Inflation | Interest Rate |
|---------|------------|-----------|---------------|
| 1986    | 3.6 %      | 106 %     | 86.7 %        |
| 1987    | 1.7        | 159       | 96.0          |
| 1988    | 1.3        | 52        | 69.7          |
| 1989    | 3.3        | 20        | 45.0          |
| 1990    | 4.4        | 30        | 34.8          |
| 1991    | 3.6        | 19        | 19.3          |
| 1992est | 3.9        | 13        | 12.2          |

## Astonishing Turnaround in Argentina

by Pedro Lacoste



**T**hree years ago, Argentina was in the midst of hyperinflation. Decades of mismanagement of the economy had led to a closed, non-competitive, non-growth economy with inflation entirely out of control. When the Government ran out of financing sources to cover the gap between expectations and economic performance, hyperinflation was the result.

That experience now appears to have been the turning point, the end of a sad story and the beginning of a hopeful one. Politicians and society as a whole finally learned that structural reforms were badly needed to rebuild the economy. This is the only way to explain the astonishing policy changes of the past 3 years: privatization of many government enterprises, reductions of public expenditures, an attack on tax evasion, deregulation, and the opening of the economy internationally.

One especially important reform was the Convertibility Plan, launched April 1, 1991. Its core is a law firmly tying the local currency to the U.S. dollar. This means that the Argentine monetary base will always have to be backed by the same amount of international reserves in the Central Bank, and it prevents the government from printing money to finance fiscal deficits.

(Cont. page 5)

As of May 1992, the economic situation seems very much consolidated. The Government has shown fiscal surpluses during the past three quarters. A "Brady Plan" for the external debt was agreed upon with the commercial banks. The return of stability and confidence produced a domestic boom in consumption and sales. The stock market has rallied sharply since July 1991 and the pattern of capital flight has reversed into repatriation and foreign capital inflows.

The problems that still exist are relatively minor, and are the normal consequences of the successful stabilization program. The trade balance has deteriorated (although it is still in surplus). The Argentine peso is slightly overvalued in the foreign currency markets, due to capital inflows. How this overvaluation will affect the competitiveness of Argentine tradable-goods producers remains an open question, since the increases in productivity created by a stable, deregulated and competitive economy could compensate for much, perhaps all, of the deterioration in the exchange rate.

Pedro Lacoste is Senior Partner of ALPHA Estudio de Economía y Negocios, Buenos Aires.

|          | GDP Growth | Inflation | Interest Rate |
|----------|------------|-----------|---------------|
| 1986     | 5.7 %      | 82 %      | 133.5 %       |
| 1987     | 2.2        | 175       | 229.4         |
| 1988     | -2.6       | 388       | 445.8         |
| 1989     | -4.5       | 4,930     | 5,477.3       |
| 1990     | 0.4        | 1,345     | 3,853.2       |
| 1991     | 5.5        | 84        | 101.7         |
| 1992 est | 7.5        | 18        | 14.0          |

## Brazil—Inflation Slower But Still Raging

by Julian M. Chacel and Marcio Ronci



**B**razilian economic indicators point to a more stable economy in the short run. After mid year, economic activity should pick up gradually. This prospect reflects the low level of inventories, better export conditions, the expectation of a good harvest, and the improved sentiment of business executives thanks to the more stable economic rules set up by the government.

Inflation has also showed some improvement. Gloomy predictions of another period of hyperinflation failed to materialize. The business community is thus abandoning the idea of pre-emptive price increases, and believes the rate of inflation will start to decline slowly. Indeed, the monthly advance in the general price index fell to 18 percent in April from 27 percent in January. However, there is a clear resistance to a further reduction.

**Policy.** The present economic team deserves full credit for coming to grips with difficult choices and undertaking sensible policies under the worst possible conditions. Brazil has recently pledged the following to the International Monetary Fund: a primary fiscal surplus of 3 percent of GDP, austerity in public sector salaries, the lifting of most price controls, hefty real interest rates, and an opening up of the domestic market to imports. The goal is a gradual drop in inflation to 12 percent monthly by mid-year and 2 percent by December. If this trend materializes, confidence in the Administration will be restored, and there would be good reason to expect a business cycle upturn in the second half of the year. Of course, it has to be admitted that there is always room for skepticism.

**Medium and Longer Term Prospects.** The current situation is far from stable. Additional fiscal and monetary stringency is needed to bring inflation down permanently. Inflation stems from the fact that the central bank is not independent, but rather finances the Treasury's deficit. In Brazil, still today, the central bank is an agency serving the purposes of the Ministry of Economy and, unfortunately, the present Government has not given due attention to this aspect of policy.

Prospects for long-term growth are not bright. The two most important obstacles are a still-high demographic growth rate, particularly among the poor, and a large portion of the workforce with very low human capital and productivity. Investments in education and health may consume a large part of available savings. As a result, after a short period of fast growth, the economy will expand at a slower pace than its historical growth rate of 7 percent a year.

Julian M. Chacel is Director and Marcio Ronci is an economist at the Brazilian Institute of Economics, Fundacao Getulio Vargas, Rio de Janeiro.

|          | GDP Growth | Inflation | Real Interest Rate |
|----------|------------|-----------|--------------------|
| 1986     | 7.6 %      | 65 %      | -0.1 %             |
| 1987     | 3.6        | 415       | -0.3               |
| 1988     | -0.1       | 1038      | -0.4               |
| 1989     | 3.3        | 1783      | 1.4                |
| 1990     | 4.0        | 1477      | 0.9                |
| 1991     | 1.2        | 480       | 1.4                |
| 1992 est | 2-3        | 612       | 4.0                |

# On Regional Trading Areas

by Paul A. Volcker



I count myself as one of those who worry about regional trading areas. Presumably, they are justified as a move toward trade liberalization, but there is also a possibility for drifting into what could end up as restrictive blocks. Moreover, my gut feeling is that the danger will be increased by exchange rate volatility between regional areas. Now I said my gut instinct but I noticed at this conference a lot of professional economists were reporting their gut instincts. Moreover, as my own analytical capacities have declined over the years, my gut has increased.

The Common Market is the big example of a regional trading area. What drove the Common Market initially was concern about a cycle of warfare in Europe, about Franco-German rivalries, and how to deal with them. Later, as monetary unity assumed more importance, I don't think that Giscard d'Estaing and Helmut Schmidt, when they sat down and put the European Community (EC) on the road toward monetary unity, had long discussions about the nature of economic shocks—whether they were external or internal, real or nominal. It's a safe bet they had a larger vision of Europe and how to hold it together.

But even in emphasizing the importance of the political, I do think economists have the responsibility to subject the dreams of statesmen and the politics of politicians to the test of economic consistency and sustainability. Moreover, there is good reason to think that

in some case the economic argument might reasonably overcome the political argument.

Second, it seems to me that the extent to which the Common Market countries have moved toward a closer economic relationship reflects their concern about the disintegrating effects of flexible exchange rates. Much of the discussion at this symposium seems to me to reflect a naïve view of the practical efficiency of flexible exchange rates in dealing with economic shocks of any kind. The most important economic consideration in the vision of European monetary union was the perception that the potential exchange rate volatility within Europe, and the certain volatility between the European currencies and the dollar, would undermine prospects for coherent and free trade relationships within Europe. Perhaps they were unduly concerned, or perhaps they exaggerated the problem.

But from my viewpoint, it's hard to take great satisfaction in the operation of the floating rate system since the 1970s. We have seen increased volatility over time. Moreover, exchange rate fluctuations often seem unrelated to any discernible real or nominal shocks to the economy. And indeed, as I suggested earlier, there is some reality to the fear that volatility in exchange rates gives justification, politically or economically, to those who want to move toward protectionism.

It is very hard for governments, or for markets, to know in real time which shocks are real and lasting, which are nominal and passing, and which are reversible by macroeconomic policy and which are not. Much of the effort in textbooks to make these distinctions reminds me of the other distinction that a central banker always reads about in textbooks, namely that a lender of last resort lends freely when there is a liquidity problem,

but does not lend when there is a solvency problem. However, I have never found a central banker who could distinguish between a solvency problem and a liquidity problem in real time. We have a similar question here.

It's quite legitimate for the EC to fear the introduction of exchange rate flexibility into the European Monetary System (EMS). Such fear in the end might, based upon the actual operation of the floating system, shake the internal dynamics of the Common Market to the point that trading relationships themselves might break. Therefore, the choice of a common currency seems to me entirely rational; it's certainly a choice that I would make.

We could say that the EC is a special case. I was interested that those from Canada, Mexico, and elsewhere were very forceful about saying that monetary union in a North American free trade area is quite different. The political dimension is lacking. And if I were in their position, I would say what the Mexicans and Canadians are saying: these agreements do not call for a fixed exchange rate. It may be politically suicidal, and economically premature, to say anything else. But I also have the feeling that they doth protest too much. The peso was, in fact, fixed for decades, before a free trade agreement with the United States. It was a remarkable period of growth and stability and open capital markets in Mexico.

And it has been a long time since the Canadian dollar was fixed against the American dollar. But if I read the Canadian experience correctly, the exchange rate is a matter of some preoccupation from time to time in the conduct of Canadian monetary policy. I understand why it affects monetary policy. But the present system has not been perfect. There's been a chronic tendency toward higher interest rates, lower growth,

higher unemployment, and higher inflation in Canada. I will make a prediction that if we come back here in five years, you will find a fixed exchange rate among the peso, the U.S. dollar, and the Canadian dollar.

Third, I agree that because Europe is a special case, there's no point in crying about a regional trading arrangement in Europe. But one can question the extension to Eastern Europe and elsewhere. And one can certainly question whether the North America free trade area is inevitable, and what its implications are. I think that if we see large exchange rate volatility between the European bloc and the North American bloc, there will be a tendency to push toward more protectionism, not less.

We would be blind if we did not see the potential here. I hope it doesn't develop, but there is a potential for a kind of ganging up on Japan. Japan will certainly worry about that. But they will find it hard to react politically or economically because there isn't a natural economic region in the Far East. They don't have the political or economic background.

Finally, let me say that U.S. policy remains pivotal for several reasons. Partly because we have indirect control in the development of the North American free trade area, we can insure that it is outward looking, not inward looking. And I agree we should keep it open-ended, and not look just to Latin America. Let's look toward a Pacific Basin initiative.

Under the circumstances, this would be the most constructive way to make regional agreements outward looking instead of inward looking. It would not take a full-blown free trade agreement, but couldn't we improve dispute settlement procedures with Japan? Couldn't we develop better investment rules? In effect, couldn't we multilateralize the often antagonist Japanese-U.S. trading relationship?

Excerpted from his "Overview" of a symposium on *Policy Implications of Trade and Currency Zones*, Federal Reserve Bank of Kansas City, August 1991. Paul A. Volcker, formerly Chairman of the Board of Governors of the Federal Reserve System, is now Chairman of James D. Wolfensohn, Inc. and professor of international economic policy at Princeton University.

## Crumbling Infrastructure? First Things First!

by Edward M. Gramlich



It is premature to devote more resources to infrastructure now. Take public highways, the largest component of America's so-called crumbling infrastructure. There is no doubt that certain highways and bridges are crumbling and congested—we drive on them and can observe the decay and traffic jams. But given the present inadequate way we price their use, it would be amazing if there were not decay and congestion. Consider the following list of pricing distortions:

Drivers of automobiles and heavy trucks treat most interstate roads as if they were free goods. State governments, responsible for interstate roads, are led by the structure of Federal grants to ignore the marginal benefits of highways for out-of-state drivers. While the decay of roads depends upon vehicle axle weight,

not only are tolls not set by this factor, but they sometimes actually encourage more axle weight. Thus there are no incentives for truckers to buy vehicles designed to conserve the highways. Finally, very few toll systems use time-of-day pricing to reduce congestion.

It may be that the nation's congested and decaying highways will require more resources for highway construction and renovation. But before shifting the resources, would it not make sense:

- to reform the matching structure of Federal highway grants,
- to charge tolls on interstate roads,
- to charge heavy vehicles in proportion to axle weight, and
- to place time-of-day charges on congested urban roads?

When all these measures are taken, there will be a much clearer picture of any true needs for highway construction and renovation. Similar comments could be made about airports, landfill dumps, and most other kinds of public capital. What the country should do right away is to revamp the matching structure of Federal construction grants and assign proper user charges for public facilities. Any large-scale attack on the public investment problem should await more sensible microeconomic policies.

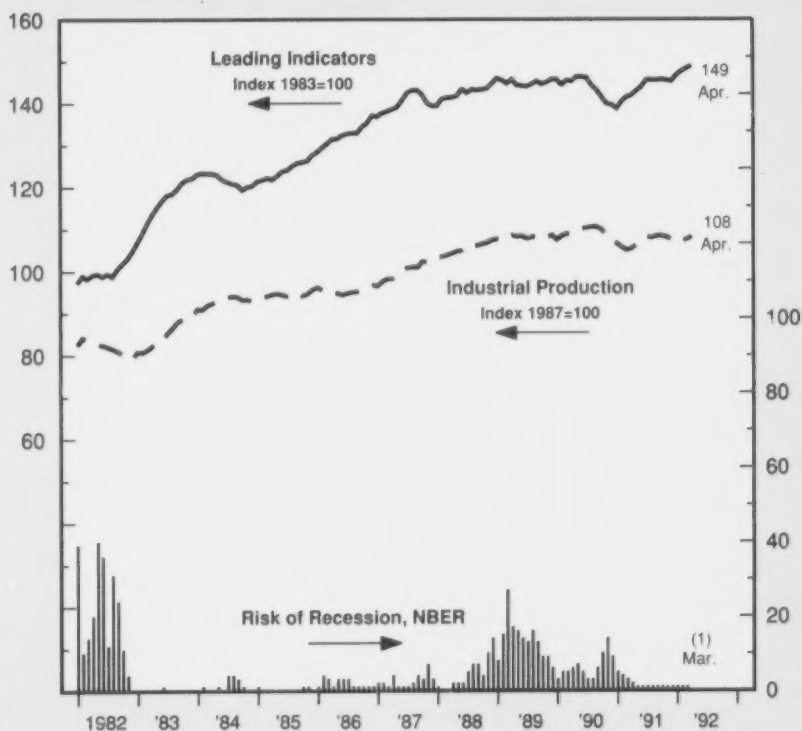
Excerpted from "Setting National Priorities: 1992", *The Journal of Economic Perspectives*, Spring 1992. Edward M. Gramlich is Professor of Economics and Public Policy at the University of Michigan, and former Acting Director of the Congressional Budget Office.

# Conference Board Stat File

## Take Your Choice

**R**ecent economic statistics have tracked such a routinely satisfactory pattern that it is difficult to decide whether to be happy or bored. The cyclical upswing is secure, slower than past experience, yes, but clearly moving onto higher ground. Yet the moderate pace of advance and ample unused capacity tell us that for two years, probably, inflation will remain quiescent in the neighborhood of 4 percent—the neighborhood to which we have become accustomed over the past decade. This combination of an economy that keeps threatening to gather a bit more momentum and a calm inflationary environment is a happy, unmenacing prospect for most of us. But it does create a spicy environment for the bond market, which is alternately frightened by signs of a strengthening economy and reassured by the quietude of inflation. Accordingly, the outlook for long-term bonds is dicey and, if that's your playground, "you pays your money and you takes your choice." But, come to think of it, when has that not been true in the financial markets?!! (Note: Data for Conference Board series in this section are available on request from Ken Goldstein at 212-339-0331.)

## Early Warning Indicators



*Early movers point toward further gains.*

## Help-Wanted Advertising and Unemployment

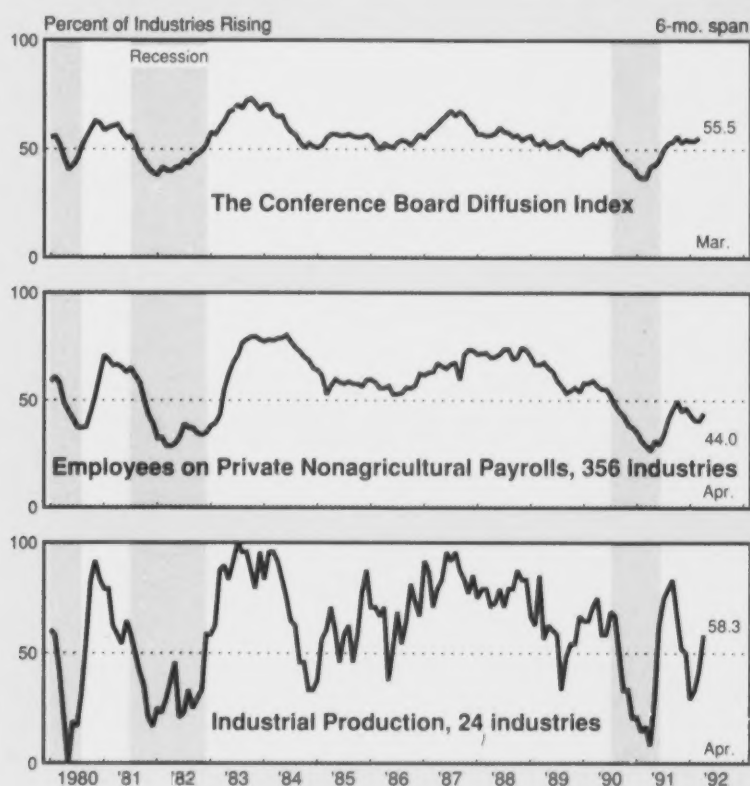


*Hint of encouragement from help-wanted ads.*

# Conference Board Stat File

## Indexes of Economic Momentum

Momentum indexes  
in neutral gear.

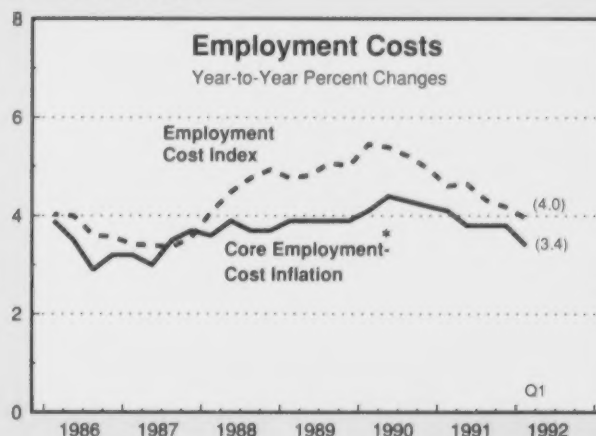


Core inflation  
still looks cool.

## Inflation Fundamentals



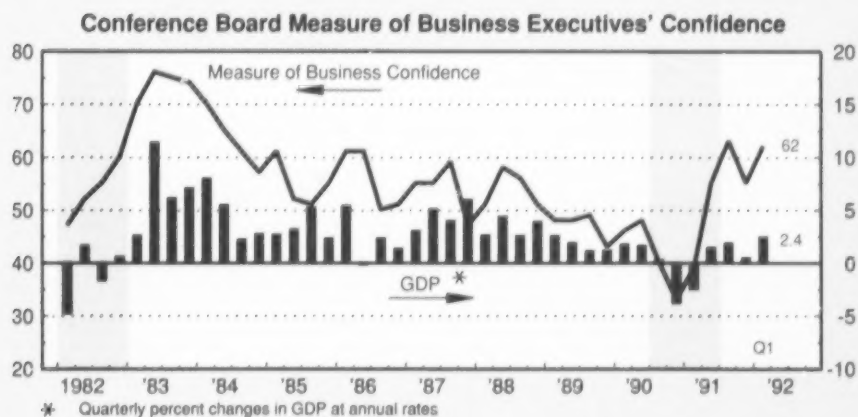
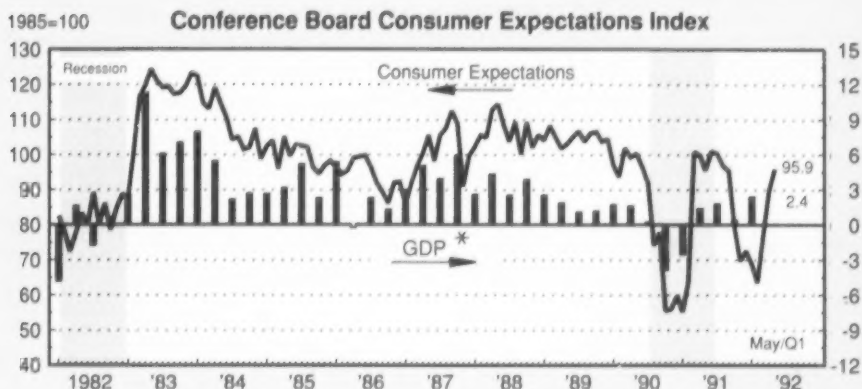
\* Core Inflation = CPI excluding food at home and energy.



\* Core employment-cost inflation = wages and salaries of private sector workers excluding sales personnel (i.e., excluding the benefits that are part of the ECI).

# Conference Board Stat File

## Confidence



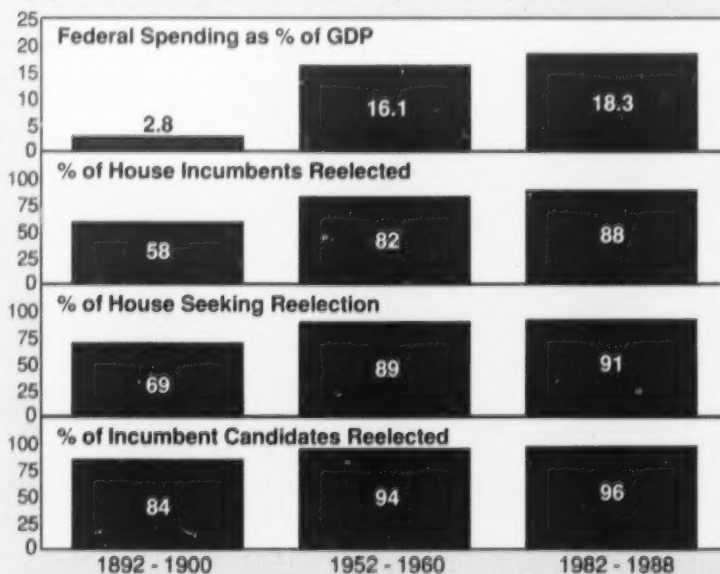
Sentiment data are encouraging again.

## Chart of the Month

Arguing for term limits, Dwight Lee asks whether longer congressional terms cause larger government, or vice versa. He concludes that cause and effect flow both ways. As the chart shows, the retention rate of House incumbents increases in parallel with federal spending. The rising retention rate (panel 2) reflects two factors: the proportion of incumbents seeking re-election (panel 3) and the proportion of those seeking re-election who are successful (bottom panel). Both have increased over the decades.

Source: Dwight R. Lee, "Fiscal Pollution and the Case for Congressional Term Limits," Center for the Study of American Business, Washington University in St. Louis. Dwight Lee is Ramsey Professor of Economics at the University of Georgia. The figures on House retention rates come from John H. Fund, "Term Limitation: An Idea Whose Time Has Come," Cato Institute, 1990.

## Bigger Government and Longer Congressional Terms



# Inside the Crystal Ball

|                  | UCLA | MERRILL L | DU PONT | GEORGIA ST. | NORTHERN TRUST | CONF. BOARD | EATON | L.H. MEYER | DRI | WEFA | MICHIGAN - RSQE |
|------------------|------|-----------|---------|-------------|----------------|-------------|-------|------------|-----|------|-----------------|
| Date of Forecast | May  | May       | May     | May         | May            | May         | Apr.  | May        | May | May  | May             |

## Gross Domestic Product

(Quarter-to-quarter percent change, constant dollars, seasonally adjusted at annual rates)

|                | %   | %   | %   | %   | %   | %   | %   | %   | %   | %   | %   |         |          |
|----------------|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|---------|----------|
| Actual 1991 4Q | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 | 4Q 1991 | Actual   |
| 1992 1Q        | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 | 1.0 | 2.0 | 2.0 | 2.0 | 1Q 1992 |          |
| Forecast 2Q    | 1.8 | 3.3 | 2.7 | 3.7 | 3.2 | 2.7 | 2.1 | 3.9 | 3.5 | 2.8 | 2.5 | 2Q      | Forecast |
| 3Q             | 2.7 | 3.1 | 3.5 | 3.6 | 3.3 | 2.3 | 3.9 | 3.1 | 3.8 | 3.4 | 4.0 | 3Q      |          |
| 4Q             | 3.0 | 3.1 | 3.6 | 2.8 | 3.1 | 1.4 | 3.7 | 3.1 | 3.2 | 3.0 | 3.9 | 4Q      |          |
| 1993 1Q        | 3.6 | 3.0 | 3.3 | 3.1 | 3.1 | 1.2 | 3.2 | 2.9 | 4.2 | 3.1 | 4.0 | 1Q 1993 |          |
| 2Q             | 3.5 | 2.9 | 4.0 | 3.7 | 3.3 | 2.9 | 2.1 | 3.1 | 3.1 | 3.2 | 3.7 | 2Q      |          |
| 3Q             | 3.1 | 2.6 | 3.4 | 2.5 | 3.0 | 2.7 | 2.4 | 3.2 | 2.5 | 2.8 | 3.3 | 3Q      |          |
| 4Q             | 2.7 | 2.7 | 3.6 | 2.9 | 2.7 | 2.4 | 3.9 | 3.1 | 2.3 | 3.2 | 2.7 | 4Q      |          |
| 1994 1Q        | 2.6 |     |     | 3.3 |     | 2.3 |     | 3.0 | 2.7 | 3.3 |     | 1Q 1994 |          |
| 2Q             |     |     |     |     |     | 2.3 |     | 2.9 | 2.6 | 3.1 |     | 2Q      |          |

## Inflation (Deflator)

(Percent change from same quarter one year earlier)

|                  |     |     |     |     |     |     |     |     |     |     |     |     |         |          |
|------------------|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|---------|----------|
| Actual 1991 4Q   | 3.0 | 3.0 | 3.0 | 3.0 | 3.0 | 3.0 | 3.0 | 3.0 | 3.0 | 3.0 | 3.0 | 3.0 | 4Q 1991 | Actual   |
| Forecast 1992 4Q | 2.7 | 3.3 | 3.4 | 2.8 | 3.1 | 2.9 | 2.7 | 2.7 | 3.0 | 2.9 | 2.7 | 2.7 | 4Q 1992 | Forecast |
| 1993 4Q          | 3.3 | 3.5 | 3.6 | 3.1 | 3.3 | 2.9 | 2.8 | 2.9 | 3.0 | 3.1 | 3.1 | 3.1 | 4Q 1993 |          |

## 30-Yr Treasury Bond Rate

(Percent, quarterly)

|                |     |     |     |     |     |     |     |     |     |     |     |     |         |          |
|----------------|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|---------|----------|
| Actual 1991 4Q | 7.9 | 7.9 | 7.9 | 7.9 | 7.9 | 7.9 | 7.9 | 7.9 | 7.9 | 7.9 | 7.9 | 7.9 | 4Q 1991 | Actual   |
| 1992 1Q        | 7.8 | 7.8 | 7.8 | 7.8 | 7.8 | 7.8 | 7.8 | 7.8 | 7.8 | 7.8 | 7.8 | 7.8 | 1Q 1992 |          |
| Forecast 2Q    | 8.1 | 8.0 | 7.8 | 7.8 | 7.9 | 7.8 | 8.0 | 7.9 | 8.1 | 8.0 | 8.0 | 8.0 | 2Q      | Forecast |
| 3Q             | 8.0 | 8.1 | 7.7 | 7.8 | 7.8 | 7.8 | 8.0 | 7.8 | 7.9 | 8.1 | 8.0 | 8.0 | 3Q      |          |
| 4Q             | 7.9 | 8.2 | 7.5 | 8.0 | 7.8 | 7.8 | 8.0 | 7.7 | 8.0 | 8.2 | 7.9 | 7.9 | 4Q      |          |
| 1993 1Q        | 7.9 | 8.2 | 7.6 | 8.1 | 7.9 | 7.8 | 7.9 | 7.6 | 8.0 | 8.3 | 7.8 | 7.8 | 1Q 1993 |          |
| 2Q             | 7.8 | 8.3 | 7.7 | 8.3 | 7.9 | 8.1 | 7.9 | 7.5 | 8.2 | 8.4 | 8.0 | 8.0 | 2Q      |          |
| 3Q             | 7.7 | 8.3 | 7.8 | 8.3 | 8.0 | 8.1 | 7.9 | 7.4 | 8.3 | 8.5 | 7.9 | 7.9 | 3Q      |          |
| 4Q             | 7.7 | 8.5 | 7.9 | 8.4 | 8.0 | 8.1 | 7.9 | 7.2 | 8.4 | 8.6 | 7.8 | 7.8 | 4Q      |          |
| 1994 1Q        | 7.8 |     |     | 8.5 | 8.1 | 8.2 |     | 7.0 | 8.4 | 8.7 |     |     | 1Q 1994 |          |
| 2Q             |     |     |     |     |     | 8.3 |     | 6.9 | 8.3 | 8.7 |     |     | 2Q      |          |

## Unemployment Rate

(Percent, quarterly)

|                  |     |     |     |     |     |     |     |     |     |     |     |     |         |          |
|------------------|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|---------|----------|
| Actual 1991 4Q   | 6.9 | 6.9 | 6.9 | 6.9 | 6.9 | 6.9 | 6.9 | 6.9 | 6.9 | 6.9 | 6.9 | 6.9 | 4Q 1991 | Actual   |
| Forecast 1992 4Q | 7.4 | 7.0 | 6.8 | 7.0 | 7.0 | 7.0 | 6.6 | 6.9 | 6.9 | 7.2 | 6.9 | 6.9 | 4Q 1992 | Forecast |
| 1993 4Q          | 6.8 | 6.5 | 6.2 | 6.7 | 6.6 | 6.7 | 6.4 | 6.1 | 6.2 | 6.4 | 6.2 | 6.2 | 4Q 1993 |          |
| 1994 1Q          | 6.6 |     |     |     |     | 6.7 |     |     | 6.1 | 6.2 |     |     | 1Q 1994 |          |



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